

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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South Tama County Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
G. Joe Lyon	President	2006
Alan Upah	Vice President	2007
Margaret Kubik	Board Member	2007
Donald Wacha	Board Member	2005
Jackie Dvorak	Board Member	2005

Board of Education  
(After September 2005 Election)

G. Joe Lyon	President	2006
Alan Upah	Vice President	2007
Margaret Kubik	Board Member	2007
Donald Wacha	Board Member	2008
Jackie Dvorak	Board Member	2008

School Officials

Larry Molacek	Superintendent	2006
Mark Fetter	District Secretary	2006
John Legg	Business Manager	2006
Peter Pashler	Attorney	2006
Joel Greer	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
South Tama County Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the South Tama County Community School District, Tama, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of South Tama County Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2006 on our consideration of South Tama County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Tama County Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 22, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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South Tama County Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$12,561,639 in fiscal 2005 to \$12,613,902 in fiscal 2006, while General Fund expenditures increased from \$12,516,265 in fiscal 2005 to \$13,228,285 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$2,886,081 in fiscal 2005 to a balance of \$2,271,698 in fiscal 2006, a 21.3% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in instruction and support services functions.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of South Tama County Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report South Tama County Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which South Tama County Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***South Tama County Community School District Annual Financial Report***

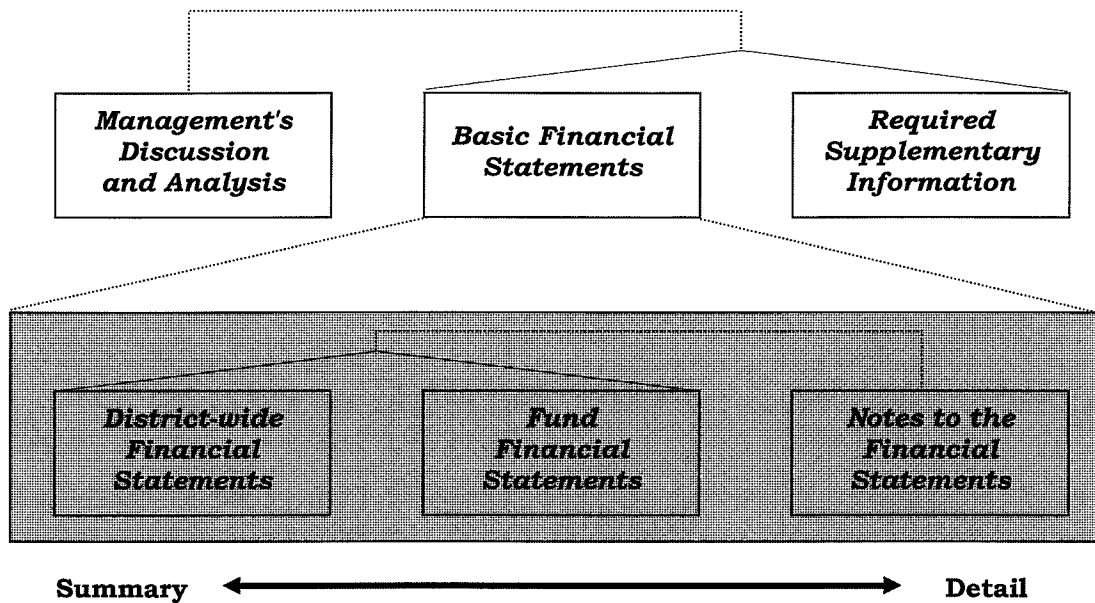


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

Agency Fund - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 10,589,947	17,999,532	98,755	109,883	10,688,702	18,109,415	-40.98%
Capital assets	11,207,845	2,875,474	75,388	34,661	11,283,233	2,910,135	287.72%
Total assets	21,797,792	20,875,006	174,143	144,544	21,971,935	21,019,550	4.53%
Long-term obligations	9,333,912	9,510,851	0	0	9,333,912	9,510,851	-1.86%
Other liabilities	5,343,751	5,110,581	23,969	34,443	5,367,720	5,145,024	4.33%
Total liabilities	14,677,663	14,621,432	23,969	34,443	14,701,632	14,655,875	0.31%
Net assets:							
Invested in capital assets, net of related debt	4,293,513	2,875,474	75,388	34,661	4,368,901	2,910,135	50.13%
Restricted	894,158	1,010,554	0	0	894,158	1,010,554	-11.52%
Unrestricted	1,932,458	2,367,543	74,786	75,440	2,007,244	2,442,983	-17.84%
Total net assets	\$ 7,120,129	6,253,571	150,174	110,101	7,270,303	6,363,672	14.25%

The District's combined net assets increased by 14.25%, or \$906,631, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$116,396, or 11.52% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$435,739, or 17.84%.

Figure A-4 shows the changes in net assets at June 30, 2006 and June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 513,620	613,931	261,942	261,058	775,562	874,989	-11.36%
Operating grants and contributions and restricted interest	2,252,228	2,403,895	370,592	343,275	2,622,820	2,747,170	-4.53%
Capital grants and contributions and restricted interest	500,000	0	0	0	500,000	0	100.00%
General revenues:							
Property tax	3,691,515	3,616,737	0	0	3,691,515	3,616,737	2.07%
Local option sales and service tax	801,532	760,070	0	0	801,532	760,070	5.46%
Unrestricted state grants	7,008,222	6,788,325	0	0	7,008,222	6,788,325	3.24%
Other	318,832	250,725	1,568	1,279	320,400	252,004	27.14%
Total revenues	15,085,949	14,433,683	634,102	605,612	15,720,051	15,039,295	4.53%
Program expenses:							
Governmental activities:							
Instructional	8,796,235	8,824,280	0	0	8,796,235	8,824,280	-0.32%
Support services	4,447,401	3,586,244	0	0	4,447,401	3,586,244	24.01%
Non-instructional programs	0	224	637,615	606,821	637,615	607,045	5.04%
Other expenses	975,755	751,111	0	0	975,755	751,111	29.91%
Total expenses	14,219,391	13,161,859	637,615	606,821	14,857,006	13,768,680	7.90%
Change in net assets before capital contributions	866,558	1,271,824	(3,513)	(1,209)	863,045	1,270,615	-32.08%
Capital contributions	0	0	43,586	0	43,586	0	100.00%
Change in net assets	866,558	1,271,824	40,073	(1,209)	906,631	1,270,615	-28.65%
Net assets beginning of year	6,253,571	4,981,747	110,101	111,310	6,363,672	5,093,057	24.95%
Net assets end of year	\$ 7,120,129	6,253,571	150,174	110,101	7,270,303	6,363,672	14.25%

In fiscal 2006, property tax and unrestricted state grants account for 70.9% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.8% of the revenue from business type activities.

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The District's total revenues were approximately \$15.7 million of which \$15.1 million was for governmental activities and \$.6 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.53% increase in revenues and a 7.9% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits.

### **Governmental Activities**

Revenues for governmental activities were \$15,085,949 and expenses were \$14,219,391.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,796,235	6,543,450
Support services	4,447,401	4,446,808
Other expenses	975,755	(36,715)
Totals	<u>\$ 14,219,391</u>	<u>10,953,543</u>

- The cost financed by users of the District's programs was \$513,620.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,752,228.
- The net cost of governmental activities was financed with \$3,691,515 in property tax, \$801,532 in local option sales and services tax, \$7,008,222 in unrestricted state grants and \$282,174 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$634,102 and expenses were \$637,615. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the South Tama County Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$5,026,827, compared to last year's ending fund balances of \$12,735,787. However, the primary reason for the decrease in combined fund balances is due to the construction costs incurred during the year.

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## **Governmental Fund Highlights**

- The District's growing General Fund financial position is the product of many factors:
  - Increase in state aid grants and local sources during the year resulted in an increase in revenues.
  - The increase in expenditures was due to increases in the negotiated salary and benefits.
- The Capital Projects Fund balance decreased from \$9,103,700 in fiscal 2005 to \$1,828,573 in fiscal 2006. This was due to the construction costs incurred during the current year.

## **Proprietary Fund Highlights**

The Proprietary Fund net assets increased from \$110,101 at June 30, 2005 to \$150,174 at June 30, 2006, representing an increase of 36.4%. The main reason for the increase was due to the District receiving \$43,586 in contributed capital during the year.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$834,708 more than budgeted revenues, a variance of 5.6%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the recoding of expenditures to pass the upload requirement for the Department of Education.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$11,283,233, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 74.21% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$181,208.

The original cost of the District's capital assets was \$15,397,525. Governmental funds account for \$15,195,056 with the remainder of \$202,469 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$9,223,509 at June 30, 2006, compared to \$1,120,304 reported at June 30, 2005. This increase resulted from the increase in the costs of the construction project as it nears completion during fiscal year 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 315,400	315,920	0	0	315,400	315,920	-0.16%
Construction in progress	9,223,509	1,120,304	0	0	9,223,509	1,120,304	87.85%
Buildings	773,548	731,197	0	0	773,548	731,197	5.47%
Improvements other than buildings	179,977	183,767	0	0	179,977	183,767	-2.11%
Machinery and equipment	715,411	524,286	75,388	34,661	790,799	558,947	29.32%
Total	\$ 11,207,845	2,875,474	75,388	34,661	11,283,233	2,910,135	74.21%

### Long-Term Debt

At June 30, 2006, the District had \$9,333,912 in general obligation and other long-term debt outstanding. This represents a decrease of 1.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$8,685,000 at June 30, 2006.

The District had compensated absences at June 30, 2006 of \$63,726.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Levy Fund of \$585,186 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 8,685,000	9,000,000	-3.5%
Compensated absences	63,726	81,718	-22.0%
Early retirement	585,186	429,133	36.4%
Totals	\$ 9,333,912	9,510,851	-1.9%

### ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Residents of the District passed a bond issue for a new building on October 4, 2004. The new building should be available for use in August of 2006. The District will discontinue using the current Tama Primary building.
- The District issued \$9,000,000 in general obligation bonds to build a new PK-5 building. The amount will be repaid over twenty years by using a combination of one cent local option sales tax and a 7% income surcharge through the PPEL levy.

- 
- The District's October 2006 certified enrollment showed an increase of 43.1 students. This will be a positive impact for the District.
  - Impact aid funding remains a concern as politicians in Washington continue to push for budget deficit reductions.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Greg Darling, Business Manager, South Tama County Community School District, 1702 Harding St., Tama, Iowa, 52339.

## BASIC FINANCIAL STATEMENTS



SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 6,191,208	77,499	6,268,707
Receivables:			
Property tax:			
Delinquent	111,091	0	111,091
Succeeding year	3,521,394	0	3,521,394
Income surtax	277,274	0	277,274
Accounts	920	837	1,757
Due from other governments	488,060	0	488,060
Inventories	0	20,419	20,419
Capital assets, net of accumulated depreciation(Note 4)	11,207,845	75,388	11,283,233
<b>Total Assets</b>	<b>21,797,792</b>	<b>174,143</b>	<b>21,971,935</b>
<b>Liabilities</b>			
Accounts payable	559,782	0	559,782
Salaries and benefits payable	1,162,664	17,432	1,180,096
Accrued interest payable	57,905	0	57,905
Deferred revenue:			
Succeeding year property tax	3,521,394	0	3,521,394
Other	42,006	0	42,006
Unearned revenue	0	6,537	6,537
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	333,000	0	333,000
Compensated absences	63,726	0	63,726
Early retirement payable	154,274	0	154,274
Portion due after one year:			
General obligation bonds payable	8,352,000	0	8,352,000
Early retirement payable	430,912	0	430,912
<b>Total Liabilities</b>	<b>14,677,663</b>	<b>23,969</b>	<b>14,701,632</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	4,293,513	75,388	4,368,901
Restricted for:			
Early intervention	214,586	0	214,586
Talented and gifted	4,720	0	4,720
Physical plant and equipment levy	570,766	0	570,766
Other special revenue purposes	104,086	0	104,086
Unrestricted	1,932,458	74,786	2,007,244
<b>Total Net Assets</b>	<b>\$ 7,120,129</b>	<b>150,174</b>	<b>7,270,303</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 5,157,998	121,023	1,643,950	0	(3,393,025)	0	(3,393,025)
Special instruction	2,644,628	31,340	95,808	0	(2,517,480)	0	(2,517,480)
Other instruction	993,609	360,664	0	0	(632,945)	0	(632,945)
	8,796,235	513,027	1,739,758	0	(6,543,450)	0	(6,543,450)
Support services:							
Student services	289,854	0	0	0	(289,854)	0	(289,854)
Instructional staff services	409,063	0	0	0	(409,063)	0	(409,063)
Administration services	1,944,308	0	0	0	(1,944,308)	0	(1,944,308)
Operation and maintenance of plant services	1,215,428	0	0	0	(1,215,428)	0	(1,215,428)
Transportation services	588,748	593	0	0	(588,155)	0	(588,155)
	4,447,401	593	0	0	(4,446,808)	0	(4,446,808)
Other expenditures:							
Facilities and acquisitions	25,375	0	0	500,000	474,625	0	474,625
Long-term debt interest	382,508	0	0	0	(382,508)	0	(382,508)
AEA flowthrough	512,470	0	512,470	0	0	0	0
Depreciation(unallocated)*	55,402	0	0	0	(55,402)	0	(55,402)
	975,755	0	512,470	500,000	36,715	0	36,715
Total governmental activities	14,219,391	513,620	2,252,228	500,000	(10,953,543)	0	(10,953,543)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	637,615	261,942	370,592	0	0	(5,081)	(5,081)
Total business-type activities	637,615	261,942	370,592	0	0	(5,081)	(5,081)
Total	\$ 14,857,006	775,562	2,622,820	500,000	(10,953,543)	(5,081)	(10,958,624)
General Revenues:							
Local tax for:							
General purposes					\$ 3,298,413	0	3,298,413
Capital outlay					393,102	0	393,102
Local option sales and services tax					801,532	0	801,532
Unrestricted state grants					7,008,222	0	7,008,222
Unrestricted investment earnings					282,174	1,568	283,742
Gain on sale of equipment					14,080	0	14,080
Other					22,578	0	22,578
Total general revenues					11,820,101	1,568	11,821,669
Change in net assets before capital contributions					866,558	(3,513)	863,045
Capital contributions					0	43,586	43,586
Changes in net assets					866,558	40,073	906,631
Net assets beginning of year					6,253,571	110,101	6,363,672
Net assets end of year					\$ 7,120,129	150,174	7,270,303

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 3,400,147	1,869,004	922,057	6,191,208
Receivables:				
Property tax:				
Delinquent	100,748	0	10,343	111,091
Succeeding year	3,198,352	0	323,042	3,521,394
Income surtax	0	0	277,274	277,274
Accounts	920	0	0	920
Due from other governments	49,523	432,296	6,241	488,060
<b>Total Assets</b>	<b>\$ 6,749,690</b>	<b>2,301,300</b>	<b>1,538,957</b>	<b>10,589,947</b>
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	\$ 74,970	472,727	12,085	559,782
Salaries and benefits payable	1,162,664	0	0	1,162,664
Deferred revenue:				
Succeeding year property tax	3,198,352	0	323,042	3,521,394
Income surtax	0	0	277,274	277,274
Other	42,006	0	0	42,006
Total liabilities	4,477,992	472,727	612,401	5,563,120
Fund balances:				
Reserved for:				
Early intervention	214,586	0	0	214,586
Talented and gifted	4,720	0	0	4,720
Unreserved	2,052,392	1,828,573	926,556	4,807,521
Total fund balances	2,271,698	1,828,573	926,556	5,026,827
<b>Total Liabilities and Fund Balance</b>	<b>\$ 6,749,690</b>	<b>2,301,300</b>	<b>1,538,957</b>	<b>10,589,947</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

<b>Total fund balances of governmental funds (page 16)</b>	\$ 5,026,827
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	11,207,845
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	277,274
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(57,905)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(9,333,912)</u>
<b>Net assets of governmental activites (page 14)</b>	<u><u>\$ 7,120,129</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 3,060,146	801,532	607,981	4,469,659
Tuition	152,363	0	0	152,363
Other	135,346	182,259	342,509	660,114
Intermediate sources	5,895	0	0	5,895
State sources	8,113,232	0	298	8,113,530
Federal sources	1,146,920	500,000	0	1,646,920
Total revenues	12,613,902	1,483,791	950,788	15,048,481
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	5,346,409	0	0	5,346,409
Special instruction	2,644,628	0	0	2,644,628
Other instruction	638,993	0	354,616	993,609
	8,630,030	0	354,616	8,984,646
Support services:				
Student services	287,237	0	0	287,237
Instructional staff services	356,873	0	0	356,873
Administration services	1,668,063	0	203,769	1,871,832
Operation and maintenance of plant services	1,148,150	0	74,824	1,222,974
Transportation services	625,462	0	18,687	644,149
	4,085,785	0	297,280	4,383,065
Other expenditures:				
Facilities acquisitions	0	8,103,206	119,337	8,222,543
Long-term debt:				
Principal	0	0	315,000	315,000
Interest	0	0	354,317	354,317
AEA flowthrough	512,470	0	0	512,470
	512,470	8,103,206	788,654	9,404,330
Total expenditures	13,228,285	8,103,206	1,440,550	22,772,041
Excess(deficiency) of revenues over(under) expenditures	(614,383)	(6,619,415)	(489,762)	(7,723,560)
Other financing sources(uses):				
Transfers in	0	0	655,712	655,712
Transfers out	0	(655,712)	0	(655,712)
Sale of real property	0	0	14,600	14,600
Total other financing sources(uses)	0	(655,712)	670,312	14,600
Net change in fund balances	(614,383)	(7,275,127)	180,550	(7,708,960)
Fund balance beginning of year	2,886,081	9,103,700	746,006	12,735,787
Fund balance end of year	\$ 2,271,698	1,828,573	926,556	5,026,827

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (7,708,960)

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 8,446,780	
Depreciation expense	<u>(114,409)</u>	8,332,371

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	23,388
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Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	315,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(28,191)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ (156,053)	
Compensated Absences	17,992	
ISEBA Assessment	<u>71,011</u>	<u>(67,050)</u>

<b>Changes in net assets of governmental activities (page 15)</b>	<b><u>\$ 866,558</u></b>
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SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 77,499
Accounts receivable	837
Inventories	20,419
Capital assets, net of accumulated depreciation (Note 4)	<u>75,388</u>
<b>Total Assets</b>	<u>174,143</u>
<b>Liabilities</b>	
Salaries and benefits payable	17,432
Unearned revenue	<u>6,537</u>
<b>Total Liabilities</b>	<u>23,969</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	75,388
Unrestricted	<u>74,786</u>
<b>Total Net Assets</b>	<u><u>\$ 150,174</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 261,942
TOTAL OPERATING REVENUES	<u>261,942</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	264,480
Benefits	35,738
Services	7,034
Supplies	317,750
Depreciation	12,613
TOTAL OPERATING EXPENSES	<u>637,615</u>
OPERATING LOSS	<u>(375,673)</u>
NON-OPERATING REVENUES:	
State sources	9,058
Federal sources	361,534
Interest on investments	1,568
TOTAL NON-OPERATING REVENUES	<u>372,160</u>
Net loss before capital contributions	(3,513)
Capital contributions	<u>43,586</u>
Net income	40,073
Net assets beginning of year	<u>110,101</u>
Net assets end of year	<u>\$ 150,174</u>

SEE NOTES TO FINANCIAL STATEMENTS.



SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 261,405
Cash received from miscellaneous	181
Cash payments to employees for services	(310,036)
Cash payments to suppliers for goods or services	(288,104)
Net cash used in operating activities	<u>(336,554)</u>
Cash flows from non-capital financing activities:	
State grants received	9,058
Federal grants received	324,885
Net cash provided by non-capital financing activities	<u>333,943</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(9,754)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,568</u>
Net decrease in cash and cash equivalents	(10,797)
Cash and cash equivalents at beginning of year	<u>88,296</u>
Cash and cash equivalents at end of year	<u>\$ 77,499</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (375,673)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	36,649
Depreciation	12,613
Decrease in inventories	321
Decrease in accounts receivable	10
Decrease in accounts payable	(290)
Decrease in salaries and benefits payable	(9,818)
Decrease in unearned revenue	(366)
Net cash used in operating activities	<u>\$ (336,554)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 77,499</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$36,649.

During the year end June 30, 2006, the District received contributed capital of \$43,586.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Agency</u>
<b>Assets</b>	
Cash and pooled investments	\$     6,288
Due from other groups	<u>35,463</u>
<b>Total Assets</b>	<u><u>\$   41,751</u></u>
 <b>Liabilities</b>	
Accounts payable	\$     3,320
Due to other groups	<u>38,431</u>
<b>Total liabilities</b>	<u><u>\$   41,751</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The South Tama County Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Tama, Toledo, Chelsea, Montour, and Vining, Iowa, and the predominate agricultural territory in Tama and Poweshiek Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, South Tama County Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The South Tama County Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Tama and Poweshiek Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	10-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and



instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,491,357

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

### (3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 655,712

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 152,332	53,340	3,203	202,469
Less accumulated depreciation	117,671	12,613	3,203	127,081
Business-type activities capital assets, net	\$ 34,661	40,727	0	75,388

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 315,920	0	520	315,400
Construction in progress	1,120,304	8,103,205	0	9,223,509
Total capital assets not being depreciated	1,436,224	8,103,205	520	9,538,909
Capital assets being depreciated:				
Buildings	2,446,727	85,277	0	2,532,004
Land improvements	240,908	8,686	0	249,594
Machinery and equipment	2,597,324	304,318	27,093	2,874,549
Total capital assets being depreciated	5,284,959	398,281	27,093	5,656,147
Less accumulated depreciation for:				
Buildings	1,715,530	42,926	0	1,758,456
Land improvements	57,141	12,476	0	69,617
Machinery and equipment	2,073,038	113,193	27,093	2,159,138
Total accumulated depreciation	3,845,709	168,595	27,093	3,987,211
Total capital assets being depreciated, net	1,439,250	229,686	0	1,668,936
Governmental activities capital assets, net	\$ 2,875,474	8,332,891	520	11,207,845

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 28,714
Support services:	
Instructional staff	17,204
Administration	3,316
Operation and maintenance of plant	13,098
Transportation	50,861
	113,193
Unallocated depreciation	55,402
Total governmental activities depreciation expense	\$ 168,595
Business-type activities:	
Food services	\$ 12,613
Total business-type activities depreciation expense	\$ 12,613

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 9,000,000	0	315,000	8,685,000	330,000
Compensated absences	81,718	63,726	81,718	63,726	63,726
Early Retirement	429,133	301,094	145,041	585,186	154,274
Total	\$ 9,510,851	364,820	541,759	9,333,912	548,000

Bonds Payable

Details of the District's June 30, 2006 general obligation bonds, are as follows:

Year Ending June 30,	Bond issue dated December 1, 2004			
	Interest Rates	Principal	Interest	Total
2007	3.00 % \$	330,000	344,955	674,955
2008	3.00-3.75	345,000	334,980	679,980
2009	3.75-4.25	360,000	322,492	682,492
2010	4.25	375,000	307,536	682,536
2011	4.25	390,000	291,386	681,386
2012	4.25	405,000	274,705	679,705
2013	4.25	425,000	257,280	682,280
2014	4.00-3.55	440,000	239,280	679,280
2015	3.55-3.65	460,000	222,987	682,987
2016	3.65-3.75	480,000	206,130	686,130
2017	3.75-3.85	500,000	188,062	688,062
2018	3.85-4.00	520,000	168,745	688,745
2019	4.00-4.05	545,000	147,940	692,940
2020	4.05-4.15	565,000	125,732	690,732
2021	4.15-4.20	595,000	102,114	697,114
2022	4.20-4.25	620,000	76,882	696,882
2023	4.25-4.30	650,000	50,291	700,291
2024	4.30-4.35	680,000	22,100	702,100
Total		\$ 8,685,000	3,683,597	12,368,597

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a percent of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum dollar amount ranging from \$3,500 to \$6,500 depending on the year of

retirement per individual. Early retirement benefits paid during the year ended June 30, 2006, totaled \$145,041. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund early retirement.

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$513,469, \$474,464, and \$458,527 respectively, equal to the required contributions for each year.

**(7) Risk Management**

South Tama County Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$512,470 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Construction Commitment**

The District has entered into a contract totaling \$9,962,635 for the construction of a new pre-kindergarten elementary school building. As of June 30, 2006, costs of \$9,223,509 had been incurred against the contract. The balance of \$739,126 remaining at June 30, 2006 will be paid as work on the project progresses.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

**(11) Contingencies**

As of June 30, 2006, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 5,282,136	263,510	5,545,646	5,162,288	5,162,288	383,358
Intermediate sources	5,895	0	5,895	3,000	3,000	2,895
State sources	8,113,530	9,058	8,122,588	8,131,587	8,131,587	(8,999)
Federal sources	1,646,920	361,534	2,008,454	1,551,000	1,551,000	457,454
Total revenues	15,048,481	634,102	15,682,583	14,847,875	14,847,875	834,708
Expenditures:						
Instruction	8,984,646	0	8,984,646	9,230,000	9,230,000	245,354
Support services	4,383,065	0	4,383,065	3,906,000	3,906,000	(477,065)
Non-instructional programs	0	637,615	637,615	695,000	695,000	57,385
Other expenditures	9,404,330	0	9,404,330	10,141,869	10,141,869	737,539
Total expenditures	22,772,041	637,615	23,409,656	23,972,869	23,972,869	563,213
Excess (deficiency) of revenues over (under) expenditures	(7,723,560)	(3,513)	(7,727,073)	(9,124,994)	(9,124,994)	1,397,921
Other financing sources, net	14,600	43,586	58,186	0	0	58,186
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(7,708,960)	40,073	(7,668,887)	(9,124,994)	(9,124,994)	1,456,107
Balance beginning of year	12,735,787	110,101	12,845,888	12,509,064	12,509,064	336,824
Balance end of year	\$ 5,026,827	150,174	5,177,001	3,384,070	3,384,070	1,792,931

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.



OTHER SUPPLEMENTARY INFORMATION

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
<b>Assets</b>				
Cash and pooled investments	\$ 243,860	109,930	568,267	922,057
Receivables:				
Property tax:				
Current year delinquent	7,844	0	2,499	10,343
Succeeding year	245,383	0	77,659	323,042
Income surtax	0	0	277,274	277,274
Due from other governments	0	6,241	0	6,241
<b>Total Assets</b>	<b>\$ 497,087</b>	<b>116,171</b>	<b>925,699</b>	<b>1,538,957</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 0	12,085	0	12,085
Deferred revenue:				
Succeeding year property tax	245,383	0	77,659	323,042
Income surtax	0	0	277,274	277,274
Total liabilities	245,383	12,085	354,933	612,401
Fund balances:				
Unreserved	251,704	104,086	570,766	926,556
Total fund balances	251,704	104,086	570,766	926,556
<b>Total Liabilities and Fund Balances</b>	<b>\$ 497,087</b>	<b>116,171</b>	<b>925,699</b>	<b>1,538,957</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage-	Student	Physical	Total	Debt	Other
	ment	Activity	Plant and	Special	Service	Nonmajor
	Levy		Equipment	Revenue		Governmental
			Levy	Funds		Funds
REVENUES:						
Local sources:						
Local tax	\$ 238,267	0	369,714	607,981	0	607,981
Other	0	332,901	9,608	342,509	0	342,509
State sources	226	0	72	298	0	298
TOTAL REVENUES	238,493	332,901	379,394	950,788	0	950,788
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	354,616	0	354,616	0	354,616
Support services:						
Administration services	203,369	0	0	203,369	400	203,769
Operation and maintenance						
of plant services	74,824	0	0	74,824	0	74,824
Student transportation	18,687	0	0	18,687	0	18,687
Other expenditures:						
Facilities acquisitions	0	0	119,337	119,337	0	119,337
Long-term debt:						
Principal	0	0	0	0	315,000	315,000
Interest	0	0	0	0	354,317	354,317
TOTAL EXPENDITURES	296,880	354,616	119,337	770,833	669,717	1,440,550
EXCESS(DEFICIENCY) OF REVENUES						
OVER(UNDER) EXPENDITURES	(58,387)	(21,715)	260,057	179,955	(669,717)	(489,762)
OTHER FINANCING SOURCES:						
Transfers in	0	0	0	0	655,712	655,712
Sale of real property	0	0	14,600	14,600	0	14,600
TOTAL OTHER FINANCING SOURCES	0	0	14,600	14,600	655,712	670,312
EXCESS(DEFICIENCY) OF REVENUES AND OTHER						
FINANCING SOURCES OVER(UNDER) EXPENDITURES	(58,387)	(21,715)	274,657	194,555	(14,005)	180,550
FUND BALANCE BEGINNING OF YEAR	310,091	125,801	296,109	732,001	14,005	746,006
FUND BALANCE END OF YEAR	\$ 251,704	104,086	570,766	926,556	0	926,556

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Savings Interest	\$ 0	4,303	4,303	0
District Registration	0	376	0	376
Cross Country	0	1,281	1,240	41
Boys Basketball	7,048	13,165	11,787	8,426
Football	7,555	20,221	28,996	(1,220)
Special Fundraising	284	0	218	66
Fitness Football	2,700	3,721	5,476	945
Boys Soccer	0	1,355	1,039	316
Girls Soccer	0	1,471	1,346	125
Baseball Metro Dome	66	713	635	144
Baseball	0	3,960	3,960	0
Boys Golf	0	268	268	0
Girls Golf	0	390	390	0
Wrestling	0	13,112	11,612	1,500
Girls Basketball	4,627	9,320	12,447	1,500
Fitness Girls BB	1,022	1,088	884	1,226
Volleyball	2,118	4,234	5,240	1,112
Softball	0	2,978	2,978	0
Boys Track	560	6,070	6,358	272
Girls Track	0	3,133	3,133	0
Boys Tennis	0	50	50	0
Chelsea Activity	2,781	386	3,060	107
Chelsea Assembly	1,575	168	835	908
Primary Landscaping	0	2,600	(1,001)	3,601
Primary Activities	5,845	3,177	9,017	5
Primary Assembly	3,075	296	350	3,021
Interm Activities	8,599	2,636	2,825	8,410
Interm Assembly	1,201	994	1,837	358
MS Activities	2,062	778	1,674	1,166
MS Assembly	1,984	688	75	2,597
MS Athletics	0	5,528	5,096	432
MS Concessions	526	0	0	526
MS Band	1,204	1,187	1,714	677
MS Vocal	716	115	0	831
PE Club MS	4	0	0	4
MS Student Council	317	725	291	751
MS Magazine Sales	6,177	36,997	42,022	1,152
MS Special Ed Activity	6,329	479	(1)	6,809
MS Fundraising	856	0	0	856
HS Activities	3,569	866	795	3,640
HS Athletic-Activity	0	8,385	5,721	2,664
SBYS Pop	311	1,511	1,691	131
SBYS Vending	0	91	0	91
Diversity Account	481	1,175	197	1,459
HS Drill Team	5,692	1,529	1,942	5,279
Technology Club	410	0	0	410
Scoreboard-football	0	3,680	3,680	0

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
A F S	27	0	27	0
Annual	6,499	8,359	6,293	8,565
Art Activities	304	145	7	442
Art Club	98	244	114	228
Cheerleaders	1,456	3,117	2,178	2,395
ALM Club	750	1,371	1,435	686
HS Class Activity	0	307	0	307
Class of 2005	1,761	0	1,761	0
Class of 2006	82	2,834	2,916	0
Class of 2007	173	0	30	143
Class of 2008	59	0	0	59
HS Concessions	1,484	41,156	41,454	1,186
Drama Club	1,613	6,798	7,253	1,158
Environmental Science	0	2,258	1,437	821
FCA Club	54	0	0	54
FFA Club	929	4,027	4,397	559
National Honor Society	0	785	713	72
HS Band	0	1,222	1,222	0
Harding Street	1,184	1,130	2,314	0
Musical	6,587	3,137	4,011	5,713
HS Vocal	1,307	580	525	1,362
Music Dept Cards	390	1,780	882	1,288
HS PE Club	155	35	0	190
Plays	1,063	1,960	1,139	1,884
Pop, Athletics	982	619	1,150	451
Pop, HS Student	0	43,867	43,054	813
Soda Club	222	0	0	222
Spanish Club	86	0	76	10
Speech Activities	0	4,194	4,194	0
Speech Club	143	0	114	29
HS Special Ed	227	85	0	312
HS Student Council	184	7,709	7,604	289
HS Vending	1,913	19,612	12,865	8,660
Volleyball Club	2,367	264	240	2,391
HS Prom Account	878	2,302	2,118	1,062
HS Instrumental Music, Mansfield	785	0	785	0
HS Music Madrigals	145	0	39	106
Band Fundraising	11,129	150	11,279	0
FCCLA Club - Fams & Cons Science	137	0	0	137
Industrial Tech Club	70	0	0	70
Vending Dairy Products	0	1,476	1,083	393
HS Color Guard	864	1,935	2,261	538
Athletic Tickets	0	4,243	3,466	777
Total	\$ 125,801	332,901	354,616	104,086

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 JUNE 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 144,600	114,694	217,543	41,751
<b>Liabilities</b>				
Accounts payable	\$ 50	3,320	50	3,320
Due to other groups	144,550	111,374	217,493	38,431
<b>Total liabilities</b>	<b>\$ 144,600</b>	<b>114,694</b>	<b>217,543</b>	<b>41,751</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
<b>Revenues:</b>					
Local sources:					
Local tax	\$	4,469,659	4,122,921	3,633,127	3,675,032
Tuition		152,363	132,301	126,783	141,409
Other		660,114	730,825	593,641	607,022
Intermediate sources		5,895	1,530	1,825	844
State sources		8,113,530	7,803,209	6,952,980	6,884,766
Federal sources		1,646,920	1,389,011	1,246,690	939,223
Total	\$	15,048,481	14,179,797	12,555,046	12,248,296
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	\$	5,346,409	5,169,553	5,222,259	4,674,276
Special instruction		2,644,628	2,510,195	2,402,292	2,215,080
Other instruction		993,609	1,090,402	884,448	887,089
Support services:					
Student services		287,237	230,147	307,912	209,646
Instructional staff services		356,873	197,301	184,627	175,599
Administration services		1,871,832	2,022,185	1,540,421	1,457,029
Operation and maintenance of plant services		1,222,974	1,049,550	982,246	951,816
Transportation services		644,149	465,085	491,554	462,354
Central services		0	0	7,533	8,541
Other expenditures:					
Facilities acquisitions		8,222,543	687,194	75,135	71,525
Long-term debt:					
Principal		315,000	0	0	0
Interest		354,317	148,869	0	0
AEA flow-through		512,470	499,369	472,195	482,083
Total	\$	22,772,041	14,069,850	12,570,622	11,595,038

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
IMPACT AID GRANT	84.041	FY 06	\$ 440,776
DEPARTMENT OF THE INTERIOR:			
INDIAN EDUCATION - ASSISTANCE TO SCHOOLS	15.130	FY 06	47,585
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	36,649
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	67,993
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	256,892
			324,885
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	FY 06	227,236
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1503-GC	42,109
			269,345
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 06	6,301
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	92,640
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 06	9,954
FUND FOR THE IMPROVEMENT OF EDUCATION(IOWA DEMONSTRATION GRANT)	84.215	FY 06	500,000
READING FIRST STATE GRANT	84.357	FY 03	43,803
READING FIRST STATE GRANT	84.357	FY 06	119,406
			163,209

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 06	<u>21,646</u>
SPECIAL EDUCATION - GRANTS TO			
STATES(PART B)	84.027	FY 06	<u>95,808</u>
TOTAL			<u>\$ 2,008,798</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the South Tama County Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
South Tama County Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of South Tama County Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Tama County Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Tama County Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of South Tama County Community School District and other parties to whom South Tama County Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South Tama County Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 22, 2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of the  
South Tama County Community School District:

Compliance

We have audited the compliance of South Tama County Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. South Tama County Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of South Tama County Community School District's management. Our responsibility is to express an opinion on South Tama County Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Tama County Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South Tama County Community School District's compliance with those requirements.

In our opinion, South Tama County Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of South Tama County Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered South Tama County Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect South Tama County Community School District's ability to administer

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a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of South Tama County Community School District and other parties to whom South Tama County Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 22, 2006

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program were as follows:
  - Clustered
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual
    - CFDA Number 84.041 - Impact Aid Grant
    - CFDA Number 84.215- Fund for the Improvement of Education (Iowa Demonstration Grant)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) South Tama County Community School District did not qualify as a low-risk auditee.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

II-B-06 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

More specifically, the District has accounts called Primary Landscaping, SBYS pop and vending. We also noted a scholarship and replacement of student cell phone being purchased out of the high school pop account.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will comply with the recommendation and make the required transfers to the appropriate funds.

Conclusion - Response accepted.

- II-C-06 Student Activity Fund - We noted during our audit that the Student Activity fund had a balance remaining at year end in the district registration account.

Recommendation - The District should review their procedures to ensure that all transfers from this account have been completed before the end of the fiscal year.

Response - We will make the required transfers at year-end.

Conclusion - Response accepted.

- II-D-06 Supporting Documents for Payments with Credit Cards - It was noted during the audit, an instance of a credit card payment which lacked a detailed receipt for supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We are reviewing our procedures to ensure that supporting documentation is required for reimbursements.

Conclusion - Response accepted.

- II-E-06 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - We have changed procedures and policies to eliminate this matter.

Conclusion - Response accepted.



SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

III-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget in the future, if necessary.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mararet Kubik, Board Member	Substitute Nurse	\$170
Tim Down, Maintenance Supervisor Spouse owns Ben Franklin	Various	\$1,310

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the board member does not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction with the spouse of the maintenance supervisor does not appear to represent a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

IV-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was not properly certified to the Iowa Department of Education by October 13, 2006; however, we noted no significant variances.

Recommendation - In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

Response - We complied with the upload requirements, however; the Department of Education recertified the Certified Annual Report in February.

Conclusion - Response accepted.

IV-J-06 Financial Condition - The District had negative account balances within the Special Revenue, Student Activity fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will investigate available alternatives to eliminate the deficits.

Conclusion - Response accepted.